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Factors Affecting Voluntary Auditor Switching In LQ45 Companies Listed In Indonesia Stock Exchange

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Abstract--- *Aim of this research is to examine the effect of financial distress, audit opinion, audit delay, and changes in percentage of ROA on switching auditors of LQ 45 companies listed in Indonesia Stock Exchange in 2016-2018. Secondary data is sourced from financial statements, published by Capital Market on the Indonesia Stock Exchange. The type of research used in this study is testing hypotheses, using purposive sampling method. There are 54 data samples chosen as research objects. This study uses logistic regression analysis to test the hypothesis. The results showed that of financial distress, audit opinion, audit delay, and changes in percentage of ROA had no significant effect on the auditor switching with a negative coefficient direction. Simultaneously, financial distress, audit opinion, audit delay, and changes in percentage of ROA had no significant effect.*

Keywords--- *Auditor, Switching, Financial, Distress, Delay, Opinion, ROA*

I. Introduction

The relationship between the auditor and an entity allows for situations where the auditor is emotionally bound to the entity so that auditor independence can be threatened. Therefore, the way to maintain public trust and auditor independence requires a regulation governing the period of change of Public Accountant Firm on each entity. The independence of the auditor reflects that there is no risk of material distortion related to the quantity of information to be carried out by the auditor. so that auditor rotation is done to improve the quality of information and auditor independence. Auditor Switching is a change of Public Accountant Firm or auditor conducted by an entity or client. Auditor Switching can occur because of a regulation or regulation that requires companies to make rotations that can be called mandatory switching and the desire of companies to make voluntary changes outside the applicable regulations or can be referred to as voluntary changes [1].

Voluntary Auditor Switching can change the viewpoint of financial statement readers because KAP changes are not made in accordance with applicable Financial Services Authority regulations. Auditor Switching should be done every 5 years in accordance with applicable regulations. The change can occur because the company is experiencing financial difficulties such as a significant termination of employment, or total debt to the company that is greater than the company's assets. The next reason is the audit opinion that is not in accordance with company expectations so that the opinion is considered to affect the readers of financial statements. The third reason is the extension of the audit process carried out by the auditor.

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The final reason is the company's Return on Assets. In fact, voluntary turnover can lead to high errors because new auditors need time to understand the company's environment compared to auditors who have conducted audits in the company.

Based on this discussion the company needs to be careful before deciding to replace the auditor voluntarily because it can harm the company itself.

Regulation related to Auditor Switching in Indonesia was first issued by the Minister of Finance of the Republic of Indonesia Number 423 / KMK.06 / 2002 in article 6. The article states that the audit service on an entity's financial statements is limited to five consecutive years for public accounting firms and three consecutive years by a Public Accountant or auditor. The Minister of Finance of the Republic of Indonesia then issued regulation Number 17 / PMK.01 / 2008 in article 3 which states that, services are limited to public accounting firms for six consecutive years and three consecutive years by auditors [2]. In 2015, Regulation No. 20 of the Public Accountant Practices was issued. Article 11 paragraph 1 states that regulations are only bound to auditors, where services are limited to five consecutive years. Public accountants are allowed to do their services again at the same company after going through the freezing phase for two years. The latest regulation is POJK No. 13 of 2017 which states that parties who carry out financial service activities such as those engaged in the banking sector, and the capital market are obliged to limit services provided by the Public Accountant or Auditor for a period of three consecutive years and can reuse their services after the cooling-down phase is two years, while the limits for the Public Accounting Firm are based on the evaluation of the audit committee [3].

Factors that can influence auditor switching are Financial Distress, Previous Audit Opinion, Audit Delay, and Percentage of Changes in Return on Assets. The first factor is Financial Distress which can be interpreted as a situation where the company cannot fulfill financial obligations and is threatened with bankruptcy, such as the company's inability to meet debt, or failure to meet dividend payments [4]. These things are factors that can affect the company doing Auditor Switching. According to [5] bankruptcy needs to be detected early so that the financial distress model needs development. This study is different from previous studies because in this study using the LQ45 company research object. The LQ45 company was chosen as the object of research because it covers various industrial sectors such as consumer goods, chemicals, mining, and property. The LQ45 company was tested for its consistency during the research year of 2016-2018. LQ45 is a phenomenon of auditor change that originated from the Sarbanes Oxley Act case in 2002 which resulted in mandatory auditor turnover. However, clients sometimes do not do mandatory auditor switching, but voluntarily because client dissatisfaction has been discussed above, namely, several factors that underlie the client to replace the auditor outside the rules, namely before 5 years.

AI. Literature Review And Hypothesis Development

Auditor Switching

Voluntary Auditor Switching is interesting to be discussed by researchers because clients change KAP not based on regulations but by their own desires. The replacement of the KAP was due to dissatisfaction from the client which caused factors. The variable was chosen based on previous research which stated that financial difficulties, audit opinion, audit delay, and percentage changes in ROA have a significant effect on auditor switching variables. Because there are differences between one researches with another so that researchers conduct further research related to the factors that influence auditor changes voluntarily. This study refers to research conducted by [6], but the management change variable was not examined because it had no effect, and the CPA Firm Reputation variable was not examined because most of the population had used well-known auditors in Indonesia. The researcher added that the Audit Delay variable is an independent variable because based on [7] Audit Delay research has a significant effect on the KAP turnover.

The Effect Of Financial Distress On Auditor Switching

Financial Distress is a condition where an entity experiences financial difficulties and cash flow cannot meet its obligations due. Entities tend to change the KAP if they experience this situation. Risks assessed by auditors can affect audit costs, so complex companies have greater fees [8]. Through financial statements, the company's financial difficulties can be predicted. The striking thing about financial statements when a company goes bankrupt is a liability balance that is greater than cash balance. So companies will find it hard to pay tax, trade, bank, supplier, and other debts [4].

If the company is experiencing bankruptcy, the company will reconsider the KAP election. Expensive financial burden will be increasingly difficult for companies to pay off these obligations. Companies that make significant or gradual reduction in employees, difficulty in paying dividends, insufficient cash in paying long-term liabilities are some signs that the company is experiencing difficulties [9]. According to the research of [10] the Financial Distress variable does not significantly influence the Auditor Switching variable in manufacturing companies. This result contradicts with [11] who examined real estate & property companies and stated that financial difficulties affect the change of public accounting firm, because the new auditor's fee to understand the company environment will take a long time so that the fees charged will increase.

H1: Financial Distress has a significant effect on Auditor Switching.

THE EFFECT OF PREVIOUS AUDIT OPINION ON AUDITOR SWITCHING

Audit Opinion is a statement or assertion issued by the auditor. Audit Opinions include Unqualified, Qualified, Adverse, and Disclaimer. Clients of a KAP certainly expect the opinions given are Unqualified and in addition to these opinions will provide disappointing results for clients. This can reduce the credibility of financial statements. The impact that can occur if the auditor issues a Qualified Opinion is the share price, because potential investors and other financial statement readers will take further consideration in investing in the client's company.

According to [12] Audit Opinion has an influence on Auditor Switching. With the presence of a new auditor, the opinion given is not much different or the same opinion will be given by the new auditor. This is contrary to the research of [1] that audit opinion does not affect the Auditor Switching variable.

H2: Previous Audit Opinion has a significant effect on Auditor Switching.

THE EFFECT OF AUDIT DELAY ON AUDITOR SWITCHING

Audit Delay is a period that is calculated from the company's fiscal end date until the date the independent audit report is completed. Audit Delay can be divided into three, namely Scheduling Lag, Reporting Lag, and Fieldwork Lag. Lag is needed to complete the audit report and so that financial information can be formed as well and as completely as possible. Auditors who complete the report according to the agreed date will tend to be reused in the next period, while auditors who pass the deadline have an impact on the replacement of new auditors. The longer the financial statements are completed, the reliability will be questioned.

According to [13] who examined manufacturing companies stated that Audit Delay did not have a significant effect on Auditor Switching. These results contradict the research of [7] which states that Audit Delay has a significant influence on Auditor Switching that is investigated in real estate and property companies. An audit process that is past the deadline will be considered bad for the capital market and financial statement users because of the delay in publication.

H3: Audit Delay has a significant effect on Auditor Switching.

THE EFFECT OF ROA PERCENTAGE ON AUDITOR SWITCHING

Return on Assets (ROA) is a ratio that measures a company's ability to generate profits, and then projected into the future to see the company's ability to generate profits in the future [1]. This ratio calculates the difference in ROA in a certain period with the previous year divided by the previous year and multiplied by one hundred. The higher ROA results, the better the company's effectiveness.

Percentage change in ROA can impact companies to choose a new KAP. This is supported by research by [14], which examines manufacturing companies. The first possibility that can affect the change in public accounting firms is that companies that have increased profits will tend to choose new auditors because of differences in interests between company owners who want to use their money to pay dividends, whereas management prefers to fund other projects. The second possibility is that the company is trying to hide the condition of the company from the previous auditor so that it chooses to replace the new KAP. In contrast to the results of [6], according to [15] the percentage of ROA Change variable has no influence on Auditor Switching, due to management considerations for choosing the services of the old auditor.

H4: Percentage of Change in Return on Assets has a significant effect on Auditor Switching

BI. Experimental Material Method

The type of data used is the company's financial statements listed on the Indonesia Stock Exchange and is part of the LQ45 Index in the 2016-2018 period on the Indonesia Stock Exchange. The data source used is secondary data. Secondary data is information that is not directly obtained from other parties related to the data to be taken. The data was obtained from the IDX official website namely, by downloading the LQ45 company financial statements for the period of 2016-2018. The nature of research is quantitative. Quantitative methods are research that uses data in the form of numbers. Data not only obtained from the IDX's official website is also obtained from journals, books and other media that can support the making of this research. The population is taken from the Indonesia Stock Exchange for the period of 2016, 2017 and 2018. The financial statements of the companies used are LQ45 companies based on the IDX. LQ45 is an index that measures the performance of 45 companies that have high liquidity and large market capitalization

The sampling technique used is non-probability sampling, that is, elements in the population that do not have the same probability in the selection of sample subjects. In this study, the type used was purposive sampling. In this type the sample is chosen based on accuracy. The type of purposive sampling was chosen because the information was taken based on specific criteria, in this case the sample was chosen based on existing characteristics. Criteria for determining the sample include, the sample is a LQ45 company listed on the Indonesia Stock Exchange for the period 2016-2018, the sample issues an audited financial statement for the period 2016-2018, the sample used is a sample that presents financial information in full, and the financial statements are presented in rupiah currency.

Data analysis with quantitative methods using Logistic Regression, the reason for using logistic regression analysis tools is because the dependent variable is dichotomous (doing auditor switching and not doing auditor switching). It can be interpreted that logistic regression is a study that predicts an event that can occur where the dependent variable is dichotomy (replacing KAP and not replacing KAP).

In order to measure the research variables, here we presented the measurement of variables in tabular form:

TABLE 1. EXPERIMENTAL MATERIAL METHOD

Variable	Indicators	Reference	Scale
Dependent			
Auditor Switching	0 = Not replacing KAP 1 = Replacing KAP Voluntary	[6]	Nominal
Independent			
Financial Distress	Financial difficulties are calculated using the Debt to Equity ratio. Total debt divided by total equity, then multiplied by one hundred percent.	[2]	Ratio
Previous Audit Opinion	0 = Opinion: *Unqualified with explanatory paragraph, Qualified, Adverse,* and *Disclaimer.* 1 = Opinion: *Unqualified*	[16]	Nominal
Audit Delay	Calculated by looking at the number of days the company books closed until the audit report is signed.	[13]	Interval
Percentage Change Return on Assets	Change in ROA is calculated by dividing the difference in ROA change with ROA of the previous year and multiplied by 100.	[17]	Ratio

IV. DATA ANALYSIS

MULTICOLINEARITY TEST

The results for multicollinearity testing show tolerance value for each variable is 0.555 for the Financial Distress variable, 0.914 for the Previous Audit Opinion variable, 0.611 for the Audit Delay variable, and 0.930 for the variable percentage change in ROA. While the VIF value of the Financial Distress variable is 1,802, the Previous Audit Opinion variable is 1,095, the Audit Delay variable is 1,636, and the percentage change in ROA variable is 1,075.

TABLE 2. MULTICOLINEARITY TEST

Model		Tolerance	VIF
1	(Constant)		
	Financial Distress	.555	1.802
	Previous Audit Opinion	.914	1.095
	Audit Delay	.611	1.636
	ROA	.930	1.075

a. Dependent Variable: Auditor Switching

It can be concluded that each independent variable has a tolerance value greater than 0.1 and a VIF value of less than 10, so there is no multicollinearity. From these results it can be concluded that there are no symptoms of correlation between independent variables.

MODEL FIT TEST

In the Overall Fit Model testing the Log Likelihood value is 17,108 and after the constants and independent variables are entered the Log Likelihood value is 21,958, so there is an increase. An increase of 4.85 and with the variables of Financial Distress, Previous Audit Opinion, Audit Delay, and Percentage of Changes in ROA that have been entered into the model cannot improve the model fit of research.

The Goodness-of-fit Test Model conducted in this study shows a Chi-square value of 0.446 with a significance value of 1 which is greater than 0.05, so H0 fails to be rejected.

TABLE 3. MODEL FIT TEST

Step	Chi-square	df	Sig.
1	.446	8	1.000

It can be concluded from the Hosmer and Lameshow test that the significance value is greater than α value, 0.05, which reflects no significant difference. The model is able to predict the value of observations or it can be said that the model is accepted because it matches the observational data.

MATRIX CLASSIFICATION

The results of the classification matrix testing show the predictive power of the regression model to predict companies doing voluntary auditor switching is 96.3%. As many as 49 companies did not change the KAP, while 2 companies were predicted to replace the KAP.

TABLE 4. MATRIX CLASSIFICATION

Classification Table[a,b]

			Predicted		
			Auditor Switching		Percentage
Observed			No Switch	Switch	Correct
Step 0	Auditor	No Switch	49	0	100.0
	Switching	Switch	2	0	.0
	Overall Percentage				96.3

a. Constant is included in the model.
b. The cut value is ,500

DETERMINATION OF COEFFICIENT

Cox & Snell's R Square value is the coefficient of determination for simple logistic regression where the independent variable is only 1. Nagelkerke's R Square value varies from 0 to 1, the closer to 1 means that the independent variable provides almost all the information needed to predict the variability of the dependent variable. Nagelkerke's R Square value as seen in table 3 is 0.392 or 39.2% of the dependent variable can be explained by the independent variables chosen in this study, the remaining 60.8% is explained by other variables outside this study. Other variables such as KAP size are not examined because most LQ45 companies use the services of Big 4 Accounting Firms in Indonesia such as Ernst and Young, Price Waterhouse Coopers, Deloitte, and KPMG. Variables such as management change are also not examined because of these changes in research conducted by [18] that management changes do not have a significant effect because the change of Chief Executive Officer does not always have an impact on changes in accounting policies where the old auditor is still used by clients.

TABLE 5. DETERMINATION OF COEFFICIENT

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	11.029[a]	.106	.392

HYPOTHESIS TESTING

TABLE 6. HYPOTHESIS TESTING

		Wald	df	Sig.
Step 1[a]	Financial Distress	.450	1	.502
	Audit Opinion	.000	1	.998
	Audit Delay	.923	1	.337
	ROA	.137	1	.711
	Constant	.439	1	.507

a. Variable(s) entered on step 1: Financial Distress, Audit Opinion, Audit Delay, ROA.

Based on the table above can be seen the significance value of each independent variable and the following explanation:

1. FDR variable has a significance value of 0.502; then H0 fails to be rejected because 0.502> 0.05 which means that financial difficulties do not have a significant effect on Auditor Switching.
2. OPN variable has a significance value of 0.998; then H0 fails to be rejected because 0.998> 0.05 which means that audit opinion has no significant effect on Auditor Switching.
3. ADL variable has a significance value of 0.337; then H0 fails to be rejected because 0.337> 0.05 which means that audit delay has no significant effect on Auditor Switching.
4. ROA variable has a significance value of 0.711; then H0 fails to be rejected because 0.711> 0.05 which means that the percentage change in ROA has no significant effect on Auditor Switching.

The results of this study indicate that hypothesis testing failed to prove that Financial Distress or FDR has a significant effect on Auditor Switching. It can be concluded that with or without financial difficulties does not affect the occurrence of Voluntary Auditor Switching due to conditions of financial difficulties faced by the company does not produce results to appoint a new auditor or the change in the Public Accounting Firm. The selection of new auditors will take longer to understand the company's business environment or information relating to clients. So the audit fees paid can increase because the time needed for the audit process is longer. The next results show that testing the hypothesis in this study failed to prove that Previous Audit Opinion or OPN has a significant effect on Auditor Switching. It can be concluded that with or without an audit opinion does not affect the occurrence of Voluntary Auditor Switching because audit opinions obtained by LQ 45 companies are mostly unqualified opinions or WTP. With the change of public accounting firm, opinions obtained will not be much different. Then the results show that testing the hypothesis in this study did not succeed in proving that Audit Delay or ADL has a significant effect on Auditor Switching. It can be concluded that with or without Audit Delay does not affect the occurrence of Voluntary Auditor Switching because most LQ 45 companies choose KAPs that are included in Big 4, so that reporting will not be much different from the provisions set by OJK.

The next results show that testing the hypothesis in this study did not succeed in proving that the Percentage of Change in Return on Assets or ROA has a significant effect on Auditor Switching. It can be concluded that with or without ROA does not affect the occurrence of Voluntary Auditor Switching due to any conditions experienced by LQ 45 companies tend not to replace the KAP. Then the client will not change the KAP because if seen from the period of time the client's engagement with the auditor has been long established. The results of the study carried out simultaneously showed that the independent variables namely, Financial Distress, Previous Audit Opinion, Audit Delay, and Percentage Change in ROA had no significant effect on the KAP turnover. Significance value is greater than alpha 5% so it can be interpreted that the independent variables together have no significant effect.

SUGGESTION

This research is limited to the 2016-2018 period, namely for 3 years for data collection. This study only takes data contained in companies listed on the Indonesia Stock Exchange with a LQ 45 stock index. The research variable uses only one currency, namely, the rupiah. Currencies other than rupiah are not included in this study. Based on the limitations mentioned earlier, the advice that can be given for further research is to be able to examine other variables that are rarely used that might affect the change of KAP, so that in future studies can use research objects that are not limited to certain industrial sectors, and in subsequent studies to be able to use a longer period of time.

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